



We Energies
231 W. Michigan St.
Milwaukee, WI 53203
www.we-energies.com

August 26, 2019

Ms. Steffany Powell Coker
Secretary to the Commission
Public Service Commission of Wisconsin
4822 Madison Yards Way
Madison, WI 53705-9100

RE: Docket 5-UR-109: Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Natural Gas, and Steam Rates

Dear Ms. Powell Coker:

Attached is a copy of the partial Settlement Agreement that was entered into on August 22, 2019 by the Applicants, the Citizens Utility Board of Wisconsin ("CUB") and the Wisconsin Industrial Energy Group (WIEG") in the above referenced docket. The settlement addresses all issues related to the Applicants' revenue requirement, some rate design issues and also establishes parameters for future collaboration between the Applicants, CUB and WIEG on generation planning and rate design.

The Applicants plan to file an application, including updated financial statements and the Company's proposed cost of service studies and rate proposal, requesting Commission approval of this partial Settlement Agreement pursuant Wis. Stat. § 196.026 no later than Friday, August 30, 2019.

Should you have any questions, please contact Rich Stasik at 414-221-3685 or richard.stasik@wecenergygroup.com.

Sincerely,

A handwritten signature in blue ink that reads "Theodore T. Eidukas".

Theodore T. Eidukas
Vice President – State Regulatory Affairs

Attachment

SETTLEMENT AGREEMENT

This Settlement Agreement ("Settlement Agreement") is entered into this 22nd day of August, 2019 by and between Wisconsin Electric Power Company ("WEPCO"), a Wisconsin corporation, Wisconsin Gas LLC ("WG"), a Wisconsin corporation (collectively, WEPCO and WG are referred to as "We Energies" or the "Company"), Citizens Utility Board ("CUB"), and Wisconsin Industrial Energy Group ("WIEG") (collectively, the "Settling Parties" and individually a "Settling Party").

RECITALS

- A. WEPCO and WG are investor-owned electric and natural gas public utilities as defined in Wis. Stat. § 196.01(5)(a), providing electric and natural gas service in Wisconsin;
- B. We Energies initiated Docket No. 5-UR-109 with the Public Service Commission of Wisconsin ("Commission"), seeking authority to adjust retail electric and natural gas rates for test years 2020 and 2021 (the "Proceeding");
- C. The Settling Parties are full parties in the Proceeding pursuant to Wis. Admin. Code ch. PSC 2.21;
- D. The Settling Parties acknowledge that fully litigating the Proceeding would require a substantial investment of time, effort, and expense by each Settling Party in pursuit of its respective interests in the Proceeding;
- E. The Settling Parties agree that they may avoid the time, effort, expense and uncertainty associated with a fully contested Proceeding by entering into this Settlement Agreement pursuant to Wis. Stat. § 196.026;
- F. The Settling Parties agree that We Energies' proposed revenue requirement contained in the Company's filings in the Proceeding as adjusted by the audit completed by Commission Staff on or about July 15, 2019, generally form a reasonable basis for settlement, *with the exception of* certain agreed adjustments including, but not limited to, return on equity, capital structure, return on and of certain capital investments and regulatory assets, and securitization of certain undepreciated assets, all as set forth in Exhibit A to this Settlement Agreement;
- G. While this Settlement Agreement does not represent a comprehensive settlement of rate design issues, the Settling Parties also agree to certain changes to We Energies' proposed rate design and to working collaboratively on certain rate design issues, as set forth in Exhibit A;
- H. This Settlement Agreement has resulted from arms' length negotiations between and among the Settling Parties and represents a complex, interdependent set of compromises among divergent and substantial utility, customer and stakeholder interests;

- I. Each Settling Party has been advised by counsel and is satisfied that the terms and conditions of this Settlement Agreement, taken together, are fair, adequate, and reasonable, and agree that the material modification of terms may change a Settling Party's satisfaction with the settlement;

NOW THEREFORE, in consideration of the promises and the mutual agreements contained in this Settlement Agreement, and other good and valuable consideration, the sufficiency of which the Settling Parties acknowledge, the Settling Parties agree as follows:

1. Settlement Terms: The settlement terms contained in Exhibit A (the "Settlement Terms") comprise the Settling Parties' substantive agreement as to We Energies' base revenue requirements for 2020 and 2021, and all of the financial parameters and other assumptions underlying those base revenue requirements, including the treatment of tax savings associated with the 2017 Tax Cuts and Jobs Act (P.L. 115-97) in the 2020 and 2021 test years. The Settlement Terms also comprise the Settling Parties' partial agreement as to rate design for We Energies in 2020 and 2021. The Settlement Terms represent the Settling Parties' negotiated settlement of the issues described therein, and are incorporated into, and are part of, this Settlement Agreement.
2. Cooperation of the Settling Parties: We Energies will present this Settlement Agreement and its attachments and other supporting materials to the Commission and seek an order from the Commission pursuant to Wis. Stat. § 196.026 approving this Settlement Agreement and implementing the Settlement Terms without modification. The Settling Parties will support the Application in their own interest and as reasonably requested by other Settling Parties, including by filing supportive testimony, briefing, correspondence for, or otherwise advocating in favor of, the Settlement Terms and the terms of this Settlement Agreement in the Proceeding, including as requested in any evidentiary hearing or post-evidentiary submissions. No Settling Party will oppose, directly or indirectly, any aspect of this Settlement Agreement in any venue. If in its open meeting deliberations the Commission decides to adopt part but not all of this Settlement Agreement, or to impose one or more conditions on its approval of the Settlement Agreement, each Settling Party will, within five business days of the relevant Commission open meeting, notify all of the other Settling Parties whether it is willing to accept the Commission's decision. If one or more Settling Parties indicate that they are not willing to accept the Commission's decision and, as a consequence, wish to withdraw from this Settlement Agreement, all of the Settling Parties will jointly or individually file a request for Commission rehearing or, alternatively should all the Settling Parties agree, for a contested case evidentiary hearing. In either case, the Settling Parties shall zealously advocate for the Commission's adoption of those portions of the Settlement Agreement that the Commission rejected and for the elimination of any conditions that the Commission imposed. Only upon the failure of these remedies to result in the Commission approving the Settlement Agreement as initially presented may a Settling Party who provided notice that it wished to withdraw from the Settlement Agreement so withdraw. Subject to the requirement that the Settling Parties support the Settlement

Agreement as specified in this Paragraph 2, each Settling Party shall determine in its sole discretion the language contained in its submissions to the Commission or any other venue.

3. No Precedential Effect of Settlement Terms: The Parties agree that this Settlement Agreement is entered into solely for purposes of avoiding litigation on the issues identified in the Settlement Terms. The Settling Parties therefore agree that the substantive details of this Settlement Agreement or the Settlement Terms will: (i) have no precedential effect on any Settling Parties in later Commission proceedings, or (ii) bind the Commission's future decisions in any way except insofar as necessary to implement, effectuate or enforce this Settlement Agreement.
4. Entire Agreement: This Settlement Agreement contains the entire agreement between the Settling Parties with respect to the subjects addressed herein and on a going forward basis supersedes all prior agreements and understandings, express or implied. In entering into this Settlement Agreement, no Settling Party is relying on any representation or consideration not expressed herein. Any modification of this Settlement Agreement may be made only by an instrument in writing signed by or on behalf of all the Settling Parties hereto.
5. Signature by Counterparts: The Settling Parties agree that this Settlement Agreement may be executed in counterparts and a signature by copy, facsimile, or PDF is as binding as an original signature.
6. Authority: The Settling Parties represent and warrant that the individuals signing below for each party have full power and authority to execute this Settlement Agreement.
7. Preamble: The Preamble and Recitals hereto are intended to be an integral part of this Settlement Agreement. The Preamble and Recitals hereto (including the definitions set forth therein) are hereby incorporated by reference.

[remainder of this page left intentionally blank; signature pages follow]

WISCONSIN ELECTRIC POWER COMPANY

By: Robert M. Garvin
Name: ROBERT M. GARVIN
Title: EVP - External Affairs - WEC Energy Group

WISCONSIN GAS LLC

By: Robert M. Garvin
Name: ROBERT M. GARVIN
Title: EVP - External Affairs - WEC Energy Group

WISCONSIN INDUSTRIAL ENERGY GROUP

By: Todd Stueck
Name: Todd Stueck
Title: executive director

CITIZENS UTILITY BOARD

By: Thomas Content
Name: Thomas Content
Title: Executive Director

Exhibit A

Settlement Terms—Docket 5-UR-109

Staff Audit

- Except as otherwise noted below, accept the results of the Staff audit. The settlement terms below will have the net result of reducing WEPCO's revenue deficiency from the Staff audit's \$115 M to below \$100 M.

ROE & Capital Structure (WEPCO)

- ROE: 10.0%
- Equity: 52.5%

ROE & Capital Structure (WG)

- ROE: 10.2%
- Equity: 52.5%

Revenue Sharing

- Utilities to have the following earnings sharing mechanism:
 - Company to retain all earnings for the first 25 basis points above the settled ROE.
 - Company to return to customers an amount equal to 50 percent of earnings for the next 50 basis points.
 - Company to return an amount equal to 100 percent of earnings in excess of basis points specified in preceding bullet.

Pleasant Prairie Power Plant – Securitization

- WEPCO will agree to seek a financing order from the PSCW to securitize \$ 100 million of P4's remaining book balance as of 1/1/2020. This amount represents 50% of the equity investment in the plant after deferred taxes.
- While the securitization process is being undertaken, carry will continue to accrue at WACC and be added to the amount that is securitized.
- The \$100 million securitization amount and any accrued carry between 1/1/2020 and when it is securitized will be booked to a segregated 182.2 sub-account so that the amounts can be tracked. This new sub-account will not be included in Wisconsin retail ratemaking.
- Costs to implement securitization (*e.g.*, legal fees, bankers' fees, billing system changes, etc.) to be added to amount to be securitized.
- Schedule of amounts to be securitized through Environmental Trust Financing:
 - \$100 million of capital for P4 environmental controls;
 - Carry on the \$100 million from 1/1/2020 through financing order at weighted average cost of capital (\$9.77 million); and

- Costs to implement securitization (currently estimated at \$2 million)
- WEPCO shall hold customers harmless from all income tax effects related to the ETF financing including but not limited to any early reversal of liability ADIT.
- Agree that settlement terms to include mutually agreed upon language providing that all parties will be held harmless in the event that a financing order is not successfully obtained, allowing for a limited reopener or limited rate proceeding to address P4 issues at that time. Those issues shall include but not be limited to recoverability of the net book value of the P4 plant balance as of December 31, 2019. The Parties agree that the amounts authorized to be included in the base revenue requirements are subject to true-up based on the Commission's Decision in the limited reopener or limited rate proceeding.

SSR Escrow Balance

- Agree that the \$10 million "SSR Carry disallowance" from the Staff's audit will be restored to the balance of the SSR Escrow to be amortized.
- WEPCO will extend the amortization period from 6 years to 15 years.

Future Rate Design Discussions

- During 2020, WEPCO shall work with WIEG and CUB on new rates or other innovative utility programs targeted at industrial, residential and small commercial customers respectively.

Real Time Pricing Rates

- WEPCO, CUB and WIEG will support maintaining through 2021 the status quo on RTP/RTMP market-based programs; they further agree that the period in which to address issues involving a minimum load retention requirement, as discussed in the Final Decision in 05-UR-108, be extended by two years, through 2021.

Low Income Assistance Analysis/Program Language.

- Prior to its next rate application filing, WEPCO shall provide to CUB the results of a detailed household burden index analysis. This analysis shall evaluate residential electric and natural gas utility customer bills as a percentage of household income. This analysis shall be conducted with a county-by-county level of resolution, or better.

90/10 Fuel Blend

- We will make operations and environmental managers available to provide data from plant operations; as well EPRI study that confirms ERGS cannot operate at 90/10 and comply with new WPDES permit.
- WEPCO to provide this information in either supplemental direct or rebuttal testimony.

RTMP and other Tariff Clean up

- Agree to the following WEPCO rate design modification and/or contract adjustments proposed by WIEG:
 - The CBL energy and/or billing demands may be permanently decreased when the customer reduces its load through the implementation of energy efficiency, conservation, or process improvement measures, or via the installation of new equipment.
 - Mutually agreed to language concerning interruptible event process in place of load control devices.
 - Modify the contract language concerning the notification time period and percentage of change allowed to the firm load.

WEPCO and WG Fixed Charge Change

- WEPCO and WG shall maintain residential and small commercial electric and natural gas customer fixed charges at currently authorized rates for 2020 and 2021.

Generation Planning

- WEPCO shall work collaboratively with WIEG, CUB and Commission Staff to review alternatives to the Point Beach PPA.
- Prior to retiring any units in the future, the justification to retire on an economic basis shall include a cost benefit analysis that incorporates the impact of replacement power costs. This analysis shall be vetted with WIEG, CUB and Staff on a confidential basis.
- Not less than 30 days after WEPCO files a proposal to retire an electric generating plant with a regional transmission organization, WEPCO shall provide that proposal in its entirety to the Commission.
- WEPCO shall share and brief the results of the MISO Y2 analysis with WIEG and CUB. This briefing by WEPCO to CUB and WIEG shall be made by senior management of the company, and shall be provided as soon as reasonably practicable after WEPCO receives the results of its requested Attachment Y2 analysis from MISO and a decision to retire a plant has been made.
- WEPCO, WIEG AND CUB are not opposed to considering future innovative financial tools and treatments including securitization, if such new mechanisms or policies are introduced and available to the Company in the future.

Fuel Case – Final Fuel Runs to be Performed

- The Agreement reflects a preliminary fuel cost estimate for the 2020 Fuel Cost Plan (2020 FCP) under Wis. Admin. Code ch. PSC 116. WIEG and CUB do not oppose the fuel costs as currently proposed in WEPCO's Direct testimony, but reserve the right to provide testimony under review of WEPCO's 2020 Fuel Cost Plan consistent with the

requirements of Wis. Admin. Code s. PSC 116.03. WEPCO, WIEG, and CUB agree that for WEPCO's 2020 fuel plan, the allowed fuel plan is subject to the final fuel cost runs updated by Staff.

Section 199 Issue – Reservation of Rights

- WIEG and CUB will not contest the amortization allowed for the Section 199 regulatory asset as provided in the Staff audit in this rate proceeding, but reserve their rights to contest the recoverability and/or treatment of this item in future test year rate cases.